EXPENDITURES FOR SHELTER*

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A family may buy shelter either by purchasing a dwelling or by renting it. The shelter costs of owners are of two kinds, the cost of acquisition and the continuing cost of ownership. After a dwelling has been purchased the owner must make expenditures for taxes, assessments, repairs and upkeep, and for insurance to protect his investment. There are other costs of ownership which do not involve expenditures. These are: depreciation, that is, the loss of value as the structure wears out and becomes unfashionable or out-of-date and as the neighborhood deteriorates; interest on the money invested in the property; and the time required for managing it. Once a house is purchased its cost to the owner is fixed as to these items, although the total annual sum in terms of dollars cannot be determined ahead of time, since taxes and repairs vary, it cannot be foreseen when assessments will come or how much they will be, and depreciation, while inevitable, may be rapid or slow, depending on several factors. Renters purchase shelter on a month-to-month basis and know exactly what it costs them; they are able to control their expenditures for this item because, although rents rise and fall, as a rule they can always find shelter at prices they can afford.

What a family can afford to pay for shelter depends largely upon its income. Economists suggest that the purchase price of a home should not be more than from one and one-half to two and one-half times the annual income and that not more than 20 per cent of the income should be allotted to rent, unless some of the operating costs, such as heat, are included. If more than this is paid for shelter, the family may find itself uncomfortably restricted as to other expenditures. Some authorities believe it advisable that the purchase price of a house should not be more than one and one-half times the income when the latter is $3,000 or less and that only on incomes of $10,000 or more is it safe to buy a house the price of which is two and one-half times the income.

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When a family invests more than is wise in a home, the taxes, repairs, insurance, upkeep, heating, lighting, and the maintenance of the grounds require too large a share of the income for the family to be able to maintain a standard of living in harmony with the dwelling. Most home purchases are made with a down payment and monthly payments covering interest and principal extending over a number of years. The higher the price in relation to income the more difficult it is to keep up these monthly payments, and the greater is the chance of losing the property. Sometimes families buy homes costing three, four, or five times the annual income, due to their inexperience and their ignorance of the expenses of home ownership and of the costs of the other items for which income must be spent. If, however, a family has assurance that its income will increase, it may be justified in spending more for a home than economists advise, provided it is protected against financial loss and difficulties arising from emergencies occurring during the period before the increased income materializes.

There is more building in prosperous times than in depressions. It is estimated that 937,000 non-farm dwelling units were built in 1925, when costs were high, and only 93,000 in 1933, when costs were low.[4] This is the result of the fact that most families who buy their homes do so in times of prosperity when a feeling of optimism prevails, when rents are rising, and when they agree with the real estate agents that it is better to acquire a piece of real property than a bundle of rent receipts. Thus they fix their shelter costs at a high level.

The proportion of the income which families pay for rent varies in most cases from 10 to 25 per cent of the income, the lower proportion in rural districts, the higher in cities. On very low incomes, rent may require 50 per cent or more of the income, the families receiving most of their other necessities in kind. Wage-earning families, in normal times, spend 12 to 15 per cent of their incomes for rent and the proportion tends to be the lower figure for those with the higher incomes, probably due to the fact that they do not seek to move to better quarters or neighborhoods. Families of professional men and junior executives in income groups coinciding with those of wage earners, spend more than the latter for shelter, often 30 per cent or more of their incomes, perhaps because they feel that a good neighborhood, where they will have neighbors of their own occupational status, is of paramount importance.

The market value of a house, either its rent or its sale price at a given time, does not depend upon what it cost to build it minus an allowance for depreciation, but upon what it could be rented for or what it could be sold for, which to some extent is determined by what it would cost to reproduce it. Table 1 indicates the distribution of rented

TABLE 1
PER CENT DISTRIBUTION OF RENTAL VALUES OF DWELLINGS IN 1930 AND 1940*

Rent dollars	*Urban*		*Rural Non-farm*	
	1930	*1940*	*1930*	*1940*
Under 10	5.4	9.5	41.4	47.6
10 - 14	8.2	12.3	21.5	20.8
15 - 19	10.1	14.1	13.3	12.3
20 - 29	23.0	26.9	14.4	12.2
30 - 49	31.7	28.4	7.1	5.6
50 - 74	15.4	6.7	1.5	1.1
75 - 99	3.5	1.2	0.3	0.2
100 and over	2.7	0.9	0.4	0.1

* From the Sixteenth Census of the United States, 1940 Housing, Vol. ii, Part I, Table 20, p. 56.

TABLE 2
PER CENT DISTRIBUTION AS TO VALUE OF OWNER-OCCUPIED URBAN AND RURAL NON-FARM HOMES IN 1930 AND 1940*

	Urban		*Rural Non-farm*	
Dollars	*1930*	*1940*	*1930*	*1940*
Under 1000	3.2	8.0	18.7	32.6
1,000 - 1,499	3.2	6.9	11.2	13.1
1,500 - 1,999	3.5	8.0	9.1	9.9
2,000 - 2,999	9.2	18.3	16.6	15.6
3,000 - 4,999	23.2	30.3	21.8	16.9
5,000 - 7,499	26.1	17.9	13.3	7.6
7,500 - 9,999	12.1	5.2	3.7	1.9
10,000 - 14,500	11.1	3.4	3.2	1.4
15,000 - 19,999	4.2	1.1	1.1	0.5
20,000 and over	4.3	1.0	1.4	0.5

* From the Sixteenth Census of the United States, 1940 Housing, Vol. ii, Part I, Table 17, p. 49.

dwellings as to rent in 1930 and in 1940, and table 2 shows the distribution of owner occupied homes according to the value placed upon them by their owners in these same years.

It may be seen from table 1 that while in 1930 fewer than 24 per cent of urban dwellings rented for less than $20.00 per month, in 1940 nearly 36 per cent rented for less than this. Landlords had to lower rents during the depression in accordance with what tenants were able to pay. A further factor in the reduction of rents was the fact that many families doubled up during this period, consequently there were more vacancies than before, which led to competition between landlords to keep their properties occupied. The distribution given in table 1 reflects the conditions of the preceding years, for rents lag behind other prices. In 1930 the depression had not yet had much effect upon rents, while in 1940 rents were still almost at depression levels.

Owners in 1930 still considered their properties worth much the same as in the 1920's but, as rents, the price of lots, and the cost of building declined, they realized that the market value of their homes was much less than before. In 1940 they valued them at far lower prices than in 1930, as may be seen in table 2. In the earlier year only 19 per cent of urban owner-occupied homes were valued at less than $3,000, in the latter 41 per cent. This illustrates not only the effect of lower costs of building but also the psychological effect of the low prices brought by homes as the result of forced sales and the low rents which prevailed at the time.

There is a definite relationship between the distribution of the market value of homes and the distribution of income, as may be seen by comparing tables 1 and 2 with table 3, which gives estimates of the distribution as to income of all non-farm families in 1929, of urban families in 1943, of non-farm and urban families in 1941, and of urban families in 1944.

From the last two columns it may be seen that the inclusion of single individuals increases the number of families in the lower income groups.

In comparing tables 1 and 2 with table 3 the lag in rents and in real estate prices must be kept in mind. The data for 1944 are included in table 3 for comparison with those of earlier dates, although rents had not increased after 1942.

From 1940 rents rose slowly and in 1942 were 9.9 per cent above the average for the period 1935-39 as shown in table 4.

Table 4 presents data as to changes in price indexes from the average for the period 1935-39 to May, 1942, to December, 1944, and to December, 1945. The figures in this table exhibit the lag in rents until 1942, when ceilings were imposed on them in the places

TABLE 3

ESTIMATED PERCENTAGE DISTRIBUTION OF FAMILIES[a)] IN THE UNITED STATES AS TO INCOME IN SELECTED YEARS*

	Families					
Income class	*Non-farm*[b)] *1929*	*Urban*[c)] *1933*	*Non-farm*[c)] *1941*	*Urban 1941*	*Urban*[d)] *1944*	*Urban*[c)d)] *1944*
Under $1,000	12.6	50.0	22.0	15.0	6.7	11.9
$1,000 - $1,499	21.9	19.2	16.0	14.0	5.3	7.1
$1,500 - $1,999	18.9	13.7	16.0	18.0	10.7	11.9
$2,000 - $2,999	21.1	10.7	27.0	31.0	28.7	27.1
$3,000 and over	25.5	6.4	19.0	22.0	48.6	42.0

a) Families consisting of two or more persons, except as indicated by Note c).
b) Includes imputed income on owned homes.
c) Includes single individuals not pooling income with a family group. These constitute about one-seventh of the total.
d) Distribution according to income after personal taxes.

* Data from: 1929 figures, Leven, M.: *America's Capacity to Consume.* 1933 figures, Monthly Labor Rev., vol. 46, p. 710. 1941 figures, Monthly Labor Rev., vol. 55, p. 421. 1944 figures, Monthly Labor Rev., vol. 62, pp. 2 and 4.

TABLE 4

PRICE INDEXES OF ITEMS PURCHASED BY MODERATE INCOME FAMILIES IN THE UNITED STATES IN AUGUST, 1939; MAY, 1942; DECEMBER, 1944; AND DECEMBER, 1945—THE BASE BEING THE AVERAGE FOR 1935-39*

	Indexes (1935-39 = 100)			
	Aug., 1939	*May, 1942*[a)]	*Dec., 1944*	*Dec., 1945*
All items	98.6	116.0	127.0	129.9
Food	93.5	121.6	137.4	141.4
Clothing	100.3	126.2	142.8	149.4
Rent	104.3	109.9	108.3	108.3
Gas and electricity	99.0	96.6	94.8	94.0
Other fuels and ice	96.3	112.9	123.6	126.1
House furnishings	100.6	122.2	143.0	148.3
Miscellaneous	100.4	110.9	123.1	124.8

a) General maximum price regulation.

* Data from: Monthly Labor Rev., vol. 62, p. 302.

where there were housing shortages, as compared with the rapid rise in the prices of all other goods except gas and electricity. The prices of gas and electricity have long been controlled and with the extension of the use of these utilities, producers can afford to reduce their rates. This table also indicates how, in spite of the general maximum price regulation of 1942, all goods except rents, gas, and electricity continued to rise through 1945.

Rents would have increased during the war but for the fact that ceilings were placed upon them. In places without rent ceilings they did rise. Rent was the only item in the cost of living, with the exception of gas and electricity, in which no increases were permitted. With the abolishment of price ceilings for most goods, OPA and other organizations continued to insist that rent ceilings must be maintained and OPA has recently imposed them in places where previously there were none.

Table 5 shows how the expenditures of consumers were distributed in three periods and how, with rising incomes and fixed rents, shelter took a declining proportion of the income, while other goods, with the exception of household operation, claimed greater shares, despite the increased incomes.

TABLE 5

PERCENTAGE DISTRIBUTION OF CONSUMER EXPENDITURES IN THE UNITED STATES AT SELECTED PERIODS*

	Average 1929-1941	*1942*	*1943*
Food and tobacco	30.2	35.5	37.4
Clothing, accessories, and jewelry	12.8	14.1	15.1
Housing	14.1	11.4	10.6
Household operation	14.5	15.0	13.6
All others	28.4	24.0	23.3

* Data from: Shaw, William H.: Survey of Current Business, vol. 24, p. 6, June, 1944.

The decline in the proportion spent for miscellaneous items is due to the disappearance from the market of many articles, such as refrigerators, electric appliances, new cars, etc., and to gas rationing. The latest year for which data are presented in table 5 is 1943. If data for 1944, 1945, and 1946 were included they would be more striking.

Since landlords must live in a world of high prices, increased taxes, and higher costs for all repairs that must be made, it would have been fair if OPA had allowed rents to be increased in proportion to the total cost of living. Although it is true that landlords have not had to do much redecorating or replacing of furnishings in furnished places, and that vacancies, which according to the census were 4.8 per cent of all dwellings in 1940, declined, according to an estimate of the Department of Commerce, to 2.5 per cent in 1942 and at present are negligible, these matters did not go far toward making up for fixed rents. The owners of the least desirable properties were the ones who benefited most from the scarcity of housing.

Ceilings for rents were inflationary, with respect to the sale prices of residence property. Landlords not only could not rent for prices which reflected the true value of their properties in relation to the cost of living, but due to OPA'S control over evictions they were unable to get rid of objectionable tenants. Therefore, as real estate prices rose and owners of rental property were able to realize profits, they sold their properties to homeseekers who could not find places to rent. The former tenant occupants were evicted and they in turn were forced to buy, while real estate prices went higher and higher. During the war, lot prices and building costs climbed. It was estimated that the latter had increased on the average 60 to 70 per cent by the war's end, but in some places they had doubled and since that time they have increased still more. Besides, the shortages of many materials required for construction caused builders, in order to avoid delay, to substitute larger sizes and more expensive materials and parts than those needed, which added to the cost. In some cases, inferior materials were used and certain items scanted, which eventually will increase the repairs required. This situation and the delays encountered as a result of strikes were factors stimulating the sale of existing dwellings at prices even higher than their reproduction cost.

The present high cost of building and the conditions under which landlords had to operate under OPA have discouraged investments in rental property, consequently home ownership has increased. From 1940 to 1944 owner occupancy of non-farm homes rose over 15 per cent, as may be seen in table 6, which presents data as to the tenure of dwellings at each census year from 1890 on, and for 1944.

The data for 1944 were obtained from 122 cities in areas representing one-fourth of the dwellings in non-farm areas. In all the cities except one, home ownership had increased. One-fourth of the cities showed increases of over 36 per cent in owner-occupancy, and the median increase was 28 per cent.[1] The report of this 1944 study of tenancy points out that during World War I the total increase in home ownership was moderate, that the greatest increase previous to World War II came between 1920 and 1930, and that during the depression of the 1930's the gain in home ownership was almost wiped out by foreclosures. Estimates of the number of non-farm real estate foreclosures in selected years, as taken from the Eighth Annual Report of the Federal Home Loan Bank Board, are presented in table 7 and indicate the effect of the depression on home ownership.

TABLE 6

TENURE OF DWELLINGS IN NON-FARM AREAS IN THE UNITED STATES IN CENSUS YEARS FROM 1890 AND IN 1944*

	Percentage distribution of dwellings for which tenure was reported			
	Owned		Rented	
Year	*Per cent of total*	*Per cent of change from preceding period*	*Percent of total*	*Per cent of change from preceding period*
1944	47.4	+15.3	52.6	—10.7
1940	41.1	—10.7	58.9	+ 9.1
1930	46.0	+12.5	54.0	— 8.6
1920	40.9	+ 6.5	59.1	— 4.1
1910	38.4	+ 5.2	61.6	— 3.0
1900	36.5	— 1.1	63.5	+ 0.6
1890	36.9		63.1	

* Data from: Monthly Labor Rev., vol. 62, p. 561.

TABLE 7

ESTIMATED NON-FARM REAL ESTATE FORECLOSURES IN THE UNITED STATES*

Year	*Number of foreclosures*
1926	68,100
1929	134,900
1930	150,100
1931	193,800
1932	248,700
1933	252,400

* Data from: Eighth Annual Report of Federal Home Loan Bank Board, 1940, p. 174.

Although it is not stated that these are foreclosures of residence properties, this may be inferred, for the Federal Home Loan Bank

Review[2] gives an estimate of 273,000 foreclosures on homes in 1932 and 271,000 in 1933. Besides these foreclosures, the HOLC refinanced 37,249 home mortages which were about to be foreclosed in 1933, and 688,992 in 1934.[3] The increase in home ownership from 1940 to October, 1944, was greater than that which occurred from 1920 to 1930, has continued since, and may not yet have reached its peak. If these families, who, due to the housing shortage, have been forced to buy homes at high prices can not continue to make payments on them, they will be faced with considerable losses should prices drop; and another wave of foreclosures will ensue.

When foreclosures become numerous there is always a tendency to protect the owner, who has only an equity in the property, at the expense of the lender. During the early 1930's thirty-three states passed laws to relieve distressed owners of mortgaged properties and twenty-eight created mortgage moratoriums. With the present inflated real estate prices, few individuals will lend money on a mortgage without a substantial down payment, nor will financial institutions, unless the payment of the mortgage is guaranteed by a governmental agency. The recent depression showed that a large drop in real estate values may result not only in foreclosures that bring less than the mortgages, and in moratoriums on mortgages, but in some families abandoning the homes they are paying for because others as good or better become available at prices less than the mortgage indebtedness on the homes they bought in prosperity.

Because veterans are having such difficulty in finding places to live and many of them do not have money for a large initial payment, the Veterans Administration is enabling them to buy homes without any down payment. It does this by a guarantee to financial institutions (on any loan made to a veteran to buy a home) of half the purchase price, providing the guarantee is not for more than $4,000. The interest rate which may be charged on such guaranteed loans is 4 per cent or less. California also is aiding veterans to buy homes. The veteran is required to furnish only 5 per cent of the purchase price and the state lends him the rest, taking a mortgage on the property. Three per cent interest is charged and the mortgage is to be liquidated by payments extending over periods up to 40 years. In consequence of these governmental actions and because there is almost nothing to rent, veterans are purchasing homes with little consideration as to their prices, regarding the payments they make as rent. This attitude has an inflationary effect in the present situation. Furthermore, if a depression comes before the veterans have built up substantial equities in the homes they are buying with Veterans Administration or state aid, many of them will no doubt relinquish their properties and the federal and state governments will bear the loss. This will be added to the federal government's expenditures for defense, war and post-war emergency housing, and for subsidies for rents in low-rent housing projects, for building materials, and for prefabricated dwellings.

References

1 Effect of Wartime Housing Shortages on Home Ownership. Monthly Labor Rev., vol. 62, p. 560.
2 *Federal Home Loan Bank Review*, vol. 1, p. 3.
3 *Ibid.*, vol. 2, p. 381.
4 *Statistical Abstracts of the United States 1944-45*, p. 890.